

**THE OFFICE OF REGULATORY STAFF
DIRECT TESTIMONY & EXHIBIT**

OF

SARAH W. JOHNSON

MAY 22, 2018



DOCKET NO. 2018-1-E

**ANNUAL REVIEW OF BASE RATES
FOR FUEL COSTS OF
DUKE ENERGY PROGRESS, LLC.**

DIRECT TESTIMONY AND EXHIBITS OF

SARAH W. JOHNSON

ON BEHALF OF

THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF

DOCKET NO. 2018-1-E

IN RE: ANNUAL REVIEW OF BASE RATES FOR FUEL COSTS

OF DUKE ENERGY PROGRESS, LLC

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Sarah W. Johnson. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina 29201. I am employed by the State of South Carolina as the Deputy Director of Utility Services in the Utility Rates and Services Division of the Office of Regulatory Staff (“ORS”).

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I received my Bachelor of Science from the University of South Carolina in 1995. Prior to my employment with ORS, I held a variety of positions supporting both regulated and deregulated utility operations for electric, natural gas, and telecommunication providers across the southeast. My duties included customer service, information technology, product marketing, and regulatory consulting.

I joined ORS in 2016 as Deputy Director of Utility Services. In this role I supervise the daily activities related to the technical areas of Distributed Energy Resources, solar leasing, and Demand Side Management and Energy Efficiency. I am also responsible for the daily operations of ORS Consumer Services Division.

Q. HAVE YOU TESTIFIED BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA (“COMMISSION”)?

A. Yes. I have testified before the Commission in matters related to electric utility annual review of base rates for fuel proceedings.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to set forth ORS’s recommendations resulting from the examination of Duke Energy Progress, LLC’s (“DEP” or “Company”) Distributed Energy Resource Program (“DERP”) expenses for the period of March 2017 through February 2018 (“Actual Period”), March 2018 through June 2018 (“Estimated Period”), and July 2018 through June 2019 (“Forecasted Period”).

Q. WHAT EXPENSES RELATED TO THE COMPANY’S DERP ARE INCLUDED IN THIS PROCEEDING?

A. Pursuant to S.C. Code Ann. § 58-39-130(A)(2) (2015), an electrical utility with an approved DERP may recover associated costs that are reasonably and prudently incurred, and pursuant to S.C. Code Ann. § 58-39-140(F) (2015), cost recovery shall remain in force until all approved DERP components have been recovered. The Company’s DERP was approved in Commission Order No. 2015-514, and the Company included in this filing actual, estimated and forecasted avoided and incremental costs for the period of March 1, 2017 through June 30, 2019.

Q. PLEASE EXPLAIN THE INCLUSION OF DERP AVOIDED COSTS TO BE RECOVERED IN THIS PROCEEDING.

A. According to S.C. Code Ann. § 58-39-140, payments for electricity provided under the DERP that are paid at avoided cost rates or rates negotiated pursuant to the Public

Utility Regulatory Policy Act of 1978 (“PURPA”), whichever is lower, are eligible to be recovered through the DERP avoided cost component.

The Company incurred DERP avoided costs during the Actual Period for utility-scale purchased power and excess Net Energy Metering (“NEM”) payments to customers. These costs were allocated using the same method the Company uses to allocate and recover variable environmental costs. Actual and estimated DERP avoided cost totals are shown in ORS witness Briseno’s Audit Exhibit ADB-10.

Q. WHAT TYPES OF EXPENSES HAS THE COMPANY INCLUDED AS DERP INCREMENTAL COSTS?

A. The Company included General and Administrative costs incurred to implement the Company’s DERP, NEM incentives and avoided capacity, amortization of solar rebates and related carrying costs, and NEM meter costs. Actual and estimated cost totals are shown in ORS witness Briseno’s Exhibit ADB-9. Exhibit SWJ-1 reflects the over-recovered and total estimated and forecasted incremental costs.

Q. PLEASE EXPLAIN THE COMPANY’S ADJUSTMENTS RELATED TO NEM COSTS.

A. In the Actual Period, the Company made adjustments to DERP incremental and base fuel costs as a result of an error detected when reconciling customer billing system information with final cost reports. The Company also made additional adjustments to DERP incremental costs resulting from the implementation of the “Tax Cuts and Jobs Act” that became effective January 1, 2018.

The Company made adjustments to their Solar Rebate Amortization costs of \$1,131 in January 2018 and \$2,008 in February 2018 as a result of a change in the tax rate. In

February 2018, the Company also made an adjustment of \$72,676 to the NEM Incentive costs, NEM Meter Costs, and NEM Avoided Capacity costs, as well as an adjustment of \$2,353 to base fuel costs resulting from the reporting error. The adjustment to base fuel costs is reflected on ORS witness Briseno Exhibit ADB-5. The adjustments to DERP incremental costs are reflected on ORS witness Briseno Exhibit ADB-9. ORS met with Company personnel to discuss the discrepancy and verify the corresponding adjustments.

Q. DOES ORS RECOMMEND AN ADJUSTMENT TO THE COMPANY'S DERP AVOIDED AND INCREMENTAL COSTS?

A. No. ORS met with Company personnel to discuss continued DERP implementation, to evaluate the prudence and reasonableness of expenses, and review the Company's methodology for allocating and recovering DERP expenses. ORS found the Company's adjusted DERP avoided and incremental costs to be reasonable and prudently incurred in implementing the Company's DERP. ORS also reviewed the Company's Estimated and Forecasted DERP avoided and incremental costs and found them to be reasonable.

Q. DID THE COMPANY UPDATE THE VALUE OF NEM DISTRIBUTED ENERGY RESOURCES ("VALUE OF DER")?

A. Yes. As shown in Company witness Brown's testimony (page 8), DEP proposes a total Value of DER of \$0.05036/kilowatt-hour ("kWh") for small solar generation and \$0.05026/kWh for large solar generation.

Q. DOES THE ORS HAVE ANY RECOMMENDATIONS REGARDING THE COMPANY'S UPDATED VALUE OF DER?

1 **A.** Yes. During the discovery process, the Company notified ORS of an error in the
2 Company's calculation of the solar load profile. The correction of the error results in a
3 decrease to the Value of DER as shown in Exhibit SWJ-2. ORS reviewed the Company's
4 corrected calculations and verified the corrected Value of DER. The small solar generation
5 value changed from the proposed value of \$0.05036/kWh to the corrected value of
6 \$0.05033/kWh. The large generation value changed from the proposed value of
7 \$0.05026/kWh to the corrected value of \$0.05025/kWh. The impact of the correction to
8 the Value of DER is limited to the Forecasted Period and is minimal. ORS recommends
9 DEP update Rider RNM-6 to reflect the correct rates for the Value of DER as
10 \$0.05033/kWh for small solar generation and \$0.05025/kWh for large solar generation.

11 **Q. IS THE COMPANY'S CALCULATION OF THE NEM INCENTIVE**
12 **CONSISTENT WITH DOCKET NO. 2014-246-E?**

13 **A.** Yes. The Company used the methodology approved in Commission Order No.
14 2015-194 to calculate the NEM incentive.

15 **Q. PLEASE EXPLAIN THE DERP CHARGE PER ACCOUNT.**

16 **A.** The fixed charge by which the Company proposes to recover DERP incremental
17 costs ("DERP Charge") is determined by allocating and collecting DERP incremental
18 expenses in the same way the Company allocates and collects variable environmental
19 expenses. The revenue is collected as a fixed charge per account to ensure that no account
20 charge exceeds the annual recovery caps prescribed in S.C. Code Ann. § 58-39-150. ORS
21 finds the Company's methodology to calculate, allocate and collect the DERP Charge
22 complies with Act 236 and with Commission orders.

Q. WILL THE ANNUAL DERP CHARGE RECOVER ALL THE INCREMENTAL COSTS?

A. No. The DERP Charge will not recover all the incremental costs allocated to the industrial customer class. A full recovery of DERP incremental costs would require an annual DERP charge of \$1,282.64 for industrial customers. However, the annual recovery caps prescribed in S.C. Code Ann. § 58-39-150 limit the amount Industrial customers can be charged each year to \$1,200.00. DEP's annual DERP charge will recover all incremental costs from Residential and Commercial customers as the costs are under the annual recovery caps of \$12.00 and \$120.00 respectively. See Exhibit SWJ-1 for the DERP charge per customer class.

Q. HOW WILL UNDER-COLLECTED INCREMENTAL COSTS BE TREATED?

A. Under-collected incremental costs will be treated in the same manner as other fuel and fuel-related under-collected balances are treated. The under-collection will earn carrying costs until next year when it will be reallocated using each class's contribution to peak demand.

Q. DID ORS REVIEW THE PROPOSED UPDATES TO RIDER RNM-6 THAT THE COMPANY HAS INCLUDED IN THIS PROCEEDING?

A. Yes. ORS reviewed the modifications as discussed in witness Brown's testimony and Corrected Exhibit Rider RNM-6. The Company is seeking approval to remove the requirement to install a second revenue grade meter for NEM customers. ORS reviewed the Company's proposal and associated meter costs. The Company forecasts to have over 380 second revenue grade meters deployed by June 30, 2018. In addition, the Company continues to use estimated data instead of actual data in its solar load profile calculation.

1 **Q. DOES ORS HAVE ANY ADDITIONAL RECOMMENDATIONS REGARDING**
2 **RIDER RNM-6?**

3 **A.**No. ORS does not oppose the Company's proposed modifications to Rider RNM-
4 6.

5 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

6 **A.**Yes.

Office of Regulatory Staff
Calculation of DERP Charge
Duke Energy Progress, LLC
Docket No. 2018-1-E

EXHIBIT SWJ-1

(Over)/Under-Recovery of DERP Incremental Costs			
March 2017 through June 2018			
	Residential	Commercial	Industrial
Cumulative (Over)/Under-Recovery	(\$439,809)	(\$174,538)	(\$129,658)
(Over)/Under-Recovery of DERP Incremental Costs			
July 2018 through June 2019			
	Residential	Commercial	Industrial
Cumulative (Over)/Under-Recovery	\$1,627,570	\$645,900	\$479,818
Total DERP Charge			
March 2017 through June 2019			
	Residential	Commercial	Industrial¹
Cumulative Under-Recovery through June 2019	\$1,187,761	\$471,362	\$350,160
Number of accounts	138,541	31,114	273
Annual Cost (\$) ²	\$8.57	\$15.15	\$1,200.00
Monthly DERP Charge (\$) ²	\$0.72	\$1.26	\$100.00

¹ Monthly Charge and Annual Charge are capped in compliance with Act 236. The under-collection will be reallocated in the 2019 fuel proceeding.

² ORS' review does not include Gross Receipts Tax.

Office of Regulatory Staff
Corrected Value of NEM Distributed Energy Resources
Duke Energy Progress, LLC
Docket No. 2018-1-E

EXHIBIT SWJ-2

Components of NEM Distributed Energy Resources Value	Small PV		Large PV	
	Original Component Value (\$ per kWh)	Corrected Component Value (\$ per kWh)	Original Component Value (\$ per kWh)	Corrected Component Value (\$ per kWh)
Avoided Energy Costs	\$0.036195	\$0.036169	\$0.036187	\$0.036178
Avoided Capacity Costs	\$0.013453	\$0.013446	\$0.013367	\$0.013364
Ancillary Services	\$0.000000	\$0.000000	\$0.000000	\$0.000000
T & D Capacity	\$0.000000	\$0.000000	\$0.000000	\$0.000000
Avoided Criteria Pollutants	\$0.000024	\$0.000026	\$0.000023	\$0.000024
Avoided CO2 Emissions Costs	\$0.000000	\$0.000000	\$0.000000	\$0.000000
Fuel Hedge	\$0.000000	\$0.000000	\$0.000000	\$0.000000
Utility Integration & Interconnection Cost	\$0.000000	\$0.000000	\$0.000000	\$0.000000
Utility Administrative Cost	\$0.000000	\$0.000000	\$0.000000	\$0.000000
Environmental Costs	\$0.000000	\$0.000000	\$0.000000	\$0.000000
Subtotal	\$0.049672	\$0.049641	\$0.049577	\$0.049566
Line Losses	\$0.000686	\$0.000691	\$0.000684	\$0.000684
Total Value of NEM Distributed Energy Resources	\$0.05036	\$0.05033	\$0.05026	\$0.05025